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The Elements of a Satisfactory Railway Policy

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THE railroad policy in the United States up to the time of Federal control, was, to say the least, slipshod and shortsighted. It was neither conceived nor carried out with a view to obtaining coöperation between the railroads, the employes, the shippers, communities served and the public. In fact the policy was such that no foundation was laid upon which to build a lasting and satisfactory business structure which could command the public confidence or adequately serve the nation. In consequence, the railroad industry as a whole became both unprofitable and unpopular. As was inevitable from the outset, the industry, as an institution, has gone the way of all other autocratic institutions.

UNIVERSAL RELATION BETWEEN RAILROADS AND PEOPLE

The people who, in the main, were responsible for both the policy and the form of railroad control of the past in their shortsightedness overlooked the fundamental fact that the railroad industry, intrinsically touches the very heart of, and indeed is, democracy. Its service comes nearer to being a part of the everyday life of the people, individually and collectively, than any other industry or institution in the country. Just how intimate is the relation between the railroads and the people is well illustrated by the fact that one-fifth of the population of the country have a direct or indirect proprietary interest in the railroads, either through ownership of stocks or bonds, or by reason of their ownership of life insurance policies or their deposits in savings banks. Then, when one considers the millions of railroad employes, the millions engaged in the manufacture and production of the fuel and supplies used by the railroads, it can be estimated that no less than one-third of our entire population is most vitally interested in the railroads, either as owners or by dependence.

CONTROL OF RAILROADS IN THE PAST

Yet, anomalous though it may be in a country essentially democratic, the control and management of the railroads—the virtual

dictation of the policy of government of an institution so close to the life of so many millions of people—has been held by a score of powerful financiers or their nominees. In other words, the life and destiny of the greatest industry in our country has remained absolutely in the control of masters whose power has been as vast and autocratic as that exercised by the Hohenzollern and Hapsburg families over the life and destiny of the German and Austro-Hungarian peoples.

OBJECTIVES IN A RAILROAD POLICY

This autocratic control, self-seeking and self-created, of the basic American industry must be overthrown and dispossessed as European autocracy has been dispossessed. The interests of the railroad business and of the nation, demand it. The dispossession of financial autocracy in the railroad world must form one of the essential elements of the transportation policy for the future. If this is not accomplished there must follow deterioration in railroad service, depreciation in railroad securities, and dissipation of railroad credit. In short, in determining a railroad policy for the future, we must democratize the industry by radical reform of the system of management and control, reestablish railroad credit and fix once and for all time an invigorating rate policy. I am convinced that no satisfactory policy can be framed which does not assure:

1. Adequate transportation facilities.
2. Economical operation, with proper and ample provision for improvements in service.
3. A fair return on capital honestly invested.
4. A sound and scientific rate-making policy.
5. A better understanding and a closer relationship between the railroads and their employees.

In order that these fundamental reforms may be assured, I have come to the conclusion that we must, first of all, provide a means of accomplishing the following:

- (a) The approximate valuation of the railroads in public service.
- (b) Efficient management independent of the financial interests that controlled the roads in the past.
- (c) Definite and statutory rate-making laws;
- (d) Control of management and operation by the different interests concerned.

Until we arrive at the real value of the railroads in public service, we cannot find a basis for establishing what shall be a fair return on investment. Nor can we define a scientific, equitable rate-making policy without provision for a fair return and adequate freight rates. Until we can provide for the democratization of railroad management, we cannot expect transportation to be adequate or efficient nor can we look for the reestablishment of railroad credit and public confidence.

My conclusion, therefore, is that the valuation now in progress under the direction of the Interstate Commerce Commission should be expedited and that the valuation must take into consideration, not alone the physical value of the railroads, but all other elements of values.

REFORMS OF MANAGEMENT PROPOSED

As for the reform of management, which I have said is essential, I am of the belief that it can be obtained only after the roads have been consolidated. That there is a growing belief on the part of the people that such changes as I have indicated are desirable and absolutely necessary, is evidenced by the fact that virtually all of the plans thus far presented to committees of Congress dealing with the railroad problem (and there have been a great many presented) aim at the accomplishment of these reforms to a greater or lesser degree. Most of them however fall short of the mark and, I regret to say, many of the plans obviously are insincere.

The one bill, or plan, which in my personal opinion comes closest to covering the points I have enunciated is the one introduced in the senate by Senator Irvine L. Lenroot of Wisconsin. I do not make this statement because the Lenroot bill happens to embody many of the suggestions which I have offered to the Interstate Committees of both the House and the Senate, but because I believe that the Lenroot bill is predicated upon principles which are sound and practical, and which would result in a transportation system built upon the only elements which can assure complete satisfaction to all concerned.

OUTSTANDING FEATURES OF THE LENROOT BILL

1. *Ownership*.—A National Railroad Corporation is created by Act of Congress to acquire, own and operate all interstate rail-

ways, the securities of the corporation to be privately owned.

2. *Management.*—The controlling power, subject to the supervision of the Interstate Commerce Commission, is held by a board of eleven directors selected by the President, by and with the advice and consent of the Senate, out of a limited number of names proposed to him by the various classes interested, as follows: two from the employes, by the Brotherhoods; two from the shipping, commercial and industrial groups represented by the United States Chamber of Commerce; two from the agricultural interests as represented by recognized farm organizations; three from the stockholders after a ballot, by mail, by all stockholders upon names proposed by a nominating committee named by the Interstate Commerce Commission; one from the members of the Interstate Commerce Commission and one from the members of the State Railway Commissions as nominated by the National Association of Railway Commissions. The directors shall name a director general who will be the operation head of the corporation, and the country will be divided into operating divisions or regions as may be deemed advisable. Each director will hold office for ten years. The problem of improving service and attaining efficiency will be dealt with by an advisory board selected from names proposed by the four great engineering societies of the country.

3. *Rates and Dividends.*—Dividends not exceeding six per centum per year will be paid on all issued stock. The Federal Government will guarantee minimum dividends of four per centum. The Act provides that the Interstate Commerce Commission, which will control rates, must fix rates sufficient to pay all operating expenses, depreciation and maintenance charges, and full dividends on the stock. In case rates so fixed yield a surplus above such amount of more than 2 per centum on all stock, rates forthwith shall be reduced. The surplus over dividends of six per centum will be divided as follows: 40 per cent to labor, 30 per cent to stockholders, 30 per cent to the public. The money paid to the public shall accumulate as a reserve of half a billion to be used to pay dividends in off years, and then to limit extensions which cannot be capitalized or to buy stock in at par and thus to reduce rates.

4. *Organization.*—The proposed corporation shall be formed by

exchanging stock in the new corporation for stock in existing companies on a basis determined by the valuation of the Interstate Commerce Commission. The value shall be arrived at by taking into consideration the original cost and the reproductive cost, using as a corrective the earnings over a period of ten years, capitalized at five per centum. The National Corporation shall have a working capital of \$500,000,000 and power to buy or sell directly railroad securities of all kinds, and also the right to condemn.

These are the essential elements in the Lenroot bill which I believe would give us a lasting and satisfactory transportation policy. To my mind, the provision for complete unification and for a managing and controlling board composed of representatives democratically selected as I have outlined, would protect the country against graft and profiteering, manipulation and financial exploitation, in the conduct of the transportation business. I believe that, if some policy such as that provided in the Lenroot bill, is adopted and made the law of the land, we can achieve harmony and unity in the transportation world, and that distrust and antagonism will be eliminated and made impossible of recurrence.

In conclusion, the supreme duty of Congress is to fix upon a policy that will assure adequate and efficient transportation service at the lowest cost consistent with that service, and that will give labor representation in common with other interests, and the right to participation in profits which its efficiency makes possible. These things, in my opinion, would be assured by the enactment of the Lenroot bill.